

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 PM-04 NSC-05 SP-02 SS-15

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R 101728Z SEP 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4839

INFO AMEMBASSY BONN

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C O N F I D E N T I A L SECTION 01 OF 03 PARIS 26471

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E.O. 11652: GDS

TAGS: EAIR, EIND, FR, US

SUBJECT: CIVAIR: AIR FRANCE FLEET RENEWAL AND  
MERCURE 200

REF: PARIS 25857

1. SUMMARY: DOUGLAS REPS CONFIRM THAT SALE OF AIRCRAFT  
TO FRENCH CARRIERS, SPECIFICALLY AIR FRANCE, IS  
CONDITION WITHOUT WHICH CONTINUED PARTICIPATION BY  
DOUGLAS IN MERCURE 200 PROJECT WOULD BE SERIOUSLY  
JEOPARDIZED. RETENTION MERCURE 100 BASIC WING FOR  
MERCURE 200 DECIDED UPON SOLELY IN ORDER NOT TO  
INCREASE COSTS AND SO MAKE MERCURE 200 NON-COMPETITIVE  
WITH 727. FRENCH ESTIMATE OF MARKET FOR MERCURE 200  
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IS EXAGGERATED AND DOUGLAS STILL HASN'T CANVASSED

US CARRIERS TO ASCERTAIN POSSIBLE INTEREST IN MERCURE 200. ANNOUNCEMENT OF MERCURE 200 PROJECT UNDERSTOOD TO HAVE BEEN GISCARD'S OWN DECISION. DOUGLAS IS ALSO DISCUSSING MILITARY COOPERATION WITH THE FRENCH. WE'RE STILL UNEASY OVER THE PROJECT. END SUMMARY.

2. MCDONNELL DOUGLAS REPS A.L. LEBEL, MANAGER COMMERCIAL SALES - EUROPE, AND RONALD A. HOWELL, AREA SALES MANAGER FOR UK, CALLED AT EMBASSY SEPTEMBER 9. LEBEL CLAIMED TO HAVE BEEN INVOLVED IN TALKS WITH FRENCH ON MERCURE 200 PROJECT AND WITH HOWELL WAS TO MEET SEPT. 10 WITH AIR FRANCE FOR FURTHER DISCUSSIONS ON AIR FRANCE'S PLANS FOR FLEET RENEWAL. THIS WAS FIRST OPPORTUNITY WE HAVE HAD TO DISCUSS MERCURE 200 PROJECT AND AIR FRANCE FLEET RENEWAL DIRECTLY WITH KNOWLEDGEABLE REPS FROM DOUGLAS.

3. LEBEL CONFIRMED THAT SALE OF AIRCRAFT TO FRENCH CARRIERS, AND SPECIFICALLY AIR FRANCE, WAS PARAMOUNT CONSIDERATION FOR DOUGLAS, AND FAILURE TO MAKE THAT SALE WOULD CERTAINLY PLACE IN JEOPARDY DOUGLAS' CONTINUED PARTICIPATION IN MERCURE 200 PROJECT. IN FACT, SAID LEBEL, DOUGLAS HAD BECOME SERIOUSLY INTERESTED IN EXPLORING COOPERATIVE ENDEAVORS WITH THE FRENCH ONLY AFTER THEN FINANCE MINISTER FOURCADE'S STATEMENT LAST YEAR (75 PARIS 05010) THAT AIR FRANCE SHOULD BE FORCED TO BUY FRENCH-BUILT AIRCRAFT. DOUGLAS HAD REASONED THAT IN THAT CASE US PARTNER ASSOCIATED WITH FRENCH IN A JOINT VENTURE FOR AIRCRAFT DEVELOPMENT WOULD BE BEST PLACED FOR SALE OF ITS OWN US-BUILT AIRCRAFT TO FRENCH CARRIERS SINCE GOF COULD HARDLY DISCRIMINATE AGAINST US SUPPLIER THAT WAS PARTNER OF FRENCH INDUSTRY. THIS WAS ALSO THE TIME WHEN THE GOF HAD BEGUN TO INSIST ON OFFSET FOR FOREIGN PURCHASES, WHICH FURTHER INCITED DOUGLAS TO LOOK AROUND FOR OFFSET POSSIBILITIES IN FRANCE.

4. IN MEANTIME, CONTINUED LEBEL, DOUGLAS' THINKING HAD EVOLVED AND, HE CLAIMED, DOUGLAS NOW ENVISAGED ITS COOPERATION WITH FRENCH INDUSTRY AS BEING A MUCH CONFIDENTIAL

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LONGER TERM EFFORT COMPRISING A MUCH LARGER PACKAGE THAN JUST THE MERCURE 200 PROJECT. DOUGLAS AND SNIAS HAD EVEN HELD SOME PRELIMINARY DISCUSSION ON A SECOND GENERATION SST AND HAD COMPARED DESIGN DATA. OVER THE SHORTER TERM, HOWEVER, DOUGLAS ENVISAGED ATTEMPTING TO ASSOCIATE FRENCH WITH THE DCX-200 PROJECT, AND THIS WOULD BE THE PURPOSE OF THE UPCOMING MEETING IN THE US WITH DASSAULT AND SNIAS REPS (PARA 3 PARIS 25681 AND

PARA 9 REFTEL) THAT WOULD, IN EFFECT, FOCUS ON WHETHER AIRBUS AND DC-10 DESIGNS COULD BE COMBINED TO PRODUCE AN AIRCRAFT OF ABOUT 200 PASSENGER CAPACITY WHICH, IN EFFECT, WOULD BE CLOSE TO B-10 VERSION OF AIRBUS IN WHICH BOEING HAD UNSUCCESSFULLY SOUGHT TO INTEREST AIRBUS INDUSTRIES. DOUGLAS ENGINEERS CONSIDER AIRBUS FUSELAGE TO BE OF EXCELLENT DESIGN BUT FEEL PERFORMANCE IN A DCX-200 VERSION COULD BE IMPROVED

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R 101728Z SEP 76

FM AMEMBASSY PARIS

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INFO AMEMBASSY BONN

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WITH A NEW SUPERCRITICAL WING. CF-6 ENGINES WOULD BE MAINTAINED. DOUGLAS WOULD ALSO LIKE TO RETAIN THAT FEATURE OF ITS OWN DCX-200 DESIGN INVOLVING RETENTION OF THE DC-10 COCKPIT IN ORDER TO PROVIDE COMMONALITY FOR CARRIERS ALREADY HAVING DC-10'S AND

THUS MAXIMIZE MARKET POTENTIAL FOR THE NEW AIRCRAFT.

5. WE RAISED THE QUESTION OF WING DESIGN OF THE MERCURE 200, NOTING THAT SOME CRITICISM HAD BEEN VOICED IN CERTAIN QUARTERS AND OF WHICH THE US TRADE PRESS HAD EVEN MADE MENTION. HOWELL SAID THAT MERCURE 200 HAD BEEN DESIGNED SOLELY TO COMPETE WITH BOEING 727 AND TO DO SO IT WOULD HAVE TO OFFER LOWER SEAT MILE COST. THIS COULD BE ACHIEVED THROUGH USE OF MORE EFFICIENT CFM-56 ENGINES  
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AND, OF COURSE, CAPACITY WOULD ALSO BE GREATER. IF, HOWEVER, ENTIRELY NEW WING WERE DESIGNED FOR MERCURE 200 INSTEAD OF MAINTAINING BASIC WING OF THE MERCURE 100 AND MERELY MAKING SOME MODIFICATIONS IN TRAILING EDGE, COST OF THE MERCURE 200 PROJECT WOULD ESCALATE FROM ESTIMATED \$250 MILLION (PREVIOUSLY ANNOUNCED AS \$240 MILLION - PARA 6 REFTTEL) TO AS MUCH AS \$1 BILLION. THIS INCREASE IN DEVELOPMENT COSTS WOULD MAKE MERCURE 200 NON-COMPETITIVE WITH 727. LEBEL SAID THAT AS IT WAS, PRICE FORECASTED FOR MERCURE 200 (1975 DOLLARS) WOULD BE ABOUT \$13 MILLION PER AIRCRAFT, COMPARED TO ABOUT \$10 MILLION FOR 727.

6. LEBEL SAID THAT UNDER THE DASSAULT-SNIAS-DOUGLAS PROJECT AS NOW ENVISAGED, DOUGLAS WOULD ASSUME RESPONSIBILITY FOR WORLDWIDE MARKETING AND AFTER-SALES SERVICING (AND NOT JUST IN US). DOUGLAS WOULD ALSO CONTRIBUTE TO DEVELOPMENT COSTS (HE DID NOT SAY BY HOW MUCH), BUT IN ANY CASE DOUGLAS SHARE OF THE PROJECT, INCLUDING CAPITALIZATION OF ITS MARKETING AND AFTER-SALES ROLES, WOULD NOT EXCEED 15 PERCENT.

7. AS REGARDS POSSIBLE SALE OF DOUGLAS AIRCRAFT TO FRENCH CARRIERS, LEBEL SAID THAT INDEPENDENT STUDIES DONE BY AIR INTER HAD LED THAT CARRIER TO CONCLUDE THAT DC-9 WOULD BE FAVORED OVER 737 IF GOF WOULD AUTHORIZE IT TO PURCHASE US-BUILT AIRCRAFT AS REPLACEMENT FOR ITS CARAVELLES. WITH AIR FRANCE IT WAS ANOTHER MATTER, HOWEVER, AND LEBEL ADMITTED THAT IF LEFT TO ITS OWN DECISION AIR FRACE WOULD PROBABLY PREFER TO STICK WITH BOEING EQUIPMENT. HE ADDED THAT DOUGLAS WAS NOT ONLY INTERESTED IN PLACING DC-9'S WITH AIR FRANCE BUT ALSO SAW THE DC-10 AS LOGICAL REPLACEMENT FOR AIR FRANCE'S OLD 707'S ON THE LONG-HAUL ROUTES. WE POSED THE HYPOTHETICAL QUESTION OF WHETHER DOUGLAS MIGHT BE CONTENT AND REMAIN WITH THE MERCURE 200 PROJECT IF THE GOF WERE TO AUTHORIZE SALE OF

DC-9'S TO AIR INTER ONLY. LEBEL THOUGHT THAT THIS MIGHT NOT BE ENOUGH, SINCE IT WAS REALLY THE AIR FRANCE MARKET THAT DOUGLAS WAS INTERESTED IN PENETRATING. HE STRESSED CONFIDENTIAL

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ONCE AGAIN THAT FOR DOUGLAS THE ATTRACTION OF THE MERCURE 200 PROJECT WAS THAT IT WAS SUPPOSED TO OPEN UP THE FRENCH MARKET FOR SALE OF DOUGLAS AIRCRAFT; IF THIS DID NOT OCCUR THEN DOUGLAS' CONTINUED PARTICIPATION IN THE MERCURE 200 PROJECT WOULD BE IN QUESTION. HE SAID THAT CONTRARY TO WHAT MAY HAVE BEEN IMPLIED IN THE GOF'S ANNOUNCEMENT OF THE MERCURE 200 PROJECT EARLY LAST MONTH, THERE WAS STILL NO FIRM AGREEMENT AMONG DASSAULT, SNIAS AND DOUGLAS AND IT WAS STILL QUITE POSSIBLE THAT THE WHOLE DEAL COULD FALL THROUGH. (IN THE COURSE OF DISCUSSION IT BECAME QUITE EVIDENT THAT DOUGLAS' RELATIONS WITH DASSAULT AND THE PERSONAL RELATIONSHIPS THAT HAVE BEEN ESTABLISHED THERE ARE MUCH CLOSER THAN WITH SNIAS. THIS RAISES THE QUESTION, WHICH WE DID NOT ASK, OF WHETHER DOUGLAS WOULD ACCEPT A MORE IMPORTANT ROLE FOR SNIAS IN THE MERCURE 200 PROJECT AT DASSAULT'S EXPENSE, SHOULD THE GOF CONSIDER PROPOSING THIS IN AN EFFORT TO COUNTER SOME OF THE TRADE UNION OPPOSITION TO THE MERCURE 200 PROJECT AS NOW ENVISAGED.)

8. LEBEL ADMITTED THAT CAVAILLE'S ESTIMATE OF A MARKET FOR 800 MERCURE 200'S WAS PROBABLY EXAGGERATED. WHEN WE THEN ASKED LEBEL WHAT THE MARKET OUTLOOK WAS FOR MERCURE 200 SALES IN THE US AND WHETHER ANY US CARRIERS HAD THUSFAR EXPRESSED REAL INTEREST IN THE AIRCRAFT, LEBEL SAID (TO OUR GREAT ASTONISHMENT) THAT DOUGLAS HAD NOT YET MADE ANY SOUNDINGS AMONG

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FM AMEMBASSY PARIS

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US CARRIERS BUT PLANNED TO DO THIS IN THE NEXT FOUR MONTHS. WE EXPRESSED SOME PUZZLEMENT THAT IN THESE CIRCUMSTANCES THE GOF WOULD HAVE ANNOUNCED THE PROJECT SO PRECIPITOUSLY AND IN THE TERMS IT DID, WHEN WE HAD BEEN LED TO BELIEVE THAT THE DECISION WOULD ONLY BE TAKEN IN THE FALL. LEBEL SAID DOUGLAS UNDERSTOOD ANNOUNCEMENT OF THE MERCURE 200 PROJECT WAS PRESIDENT GISCARD D'ESTAING'S OWN PERSONAL DECISION TAKEN ON SHORT NOTICE.

9. WE ASKED WHETHER DOUGLAS' TALKS THE FRENCH HAD ALSO CARRIED OVER INTO POSSIBILITIES OF COOPERATION ON MILITARY AIRCRAFT. LEBEL SAID THAT THIS HAD BEEN VERY MUCH THE CASE. HE MENTIONED THAT THE MOST ACTIVE POSSIBILITY WAS DOUGLAS' STOL  
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AIRCRAFT, THE YC-15. DOUGLAS WAS ALREADY TALKING WITH SNECMA ABOUT POWERPLANT FOR THIS AIRCRAFT.

10. COMMENT: ABOVE CONVERSATION WITH DOUGLAS REPS HAS IF ANYTHING MADE US EVEN MORE QUEAZY OVER MERCURE 200 PROJECT AND ITS POSSIBLE IMPLICATIONS THAN WHEN PARA 9 REFTEL COMMENT WAS DRAFTED.  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 SEP 1976  
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**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** BoyleJA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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